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# *The* MANAGEMENT REVIEW

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# *The* MANAGEMENT REVIEW

October, 1933

## The Economic Effects of Labor-Saving Machinery on Labor\*

By HUDSON B. HASTINGS,

*Professor of Industrial Administration, Yale University*

THE unemployment situation, particularly in the last few years, has been the major social and economic problem. And when we realize there are twelve to fifteen million of our people out of work, we wonder if there is anything in our set-up that denies able-bodied people the opportunity to be self-supporting, and to what extent machinery is responsible for it.

It is safe to say that machinery has increased the average efficiency by one hundred fold, or ten thousand per cent; and I think that is conservative if we consider as machinery all forms of tools.

Can we ever expect to re-employ all of those now unemployed, without a permanent shortening of the working week? Many people look with horror at the increase in the efficiency of plants which has taken place in the last two or three years. It has been said that the average plant is today 25 per cent more efficient than it was when the depression started. Many believe that we can never hope to re-employ our present unemployed without a permanent shortening of the work week because of the efficiency of the machine and the power that goes with it.

Must we then, we may ask, not only call a halt on the invention and use of better labor-saving machinery and methods, but also move backward by

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either giving up the use of some labor-saving machinery or reducing the hours of work in order to find employment for all?

It is an absurd proposition to say that man will have to forego the use of all possible methods and devices for increasing efficiency of human labor, when all but a negligible number are far below realizing the standard of living they would like to enjoy. The trouble is not at the door of the machine but other elements in our economic structure.

### **Fundamental Economics Involved**

I shall not try to picture this complicated structure because it is obviously impossible to do so. I can, however, give an analysis of the fundamentals involved without all their ramifications and complications, which will present the fundamental economics involved in the introduction of labor-saving machinery and methods.

Let us suppose a manufacturer finds that he can replace a yearly payroll of \$12,000 with an automatic machine with a single machine tender, and with a total operating cost, including the machine tender, of, we will say, two thousand dollars a year; thereby permanently dispensing, as far as he is concerned, with \$10,000 of payroll. Are those people permanently out, so to speak, because of the introduction of the machine? Let us trace what actually happens.

Let us assume that of the \$2,000 which it costs to operate this new machine, \$1,200 goes to the machine operator and the other \$800 goes to other expenses such as maintenance, repair, depreciation, interest on the investment, and power cost.

Now, the \$1,200 is still labor payroll, but what of the other \$800 which was formerly paid for hand labor? Is that now going to sources which mean less opportunities for employment for the people as a whole? I think not. We may trace any part of this \$800. Let us take the part of it that goes for increased power which is purchased from some power company. There you may say it has not given rise to a demand for labor. But let us trace that money and see what happens to it. What does the power company do with it? It may be that the additional power load will require the addition of some man to the payroll of the power company. This money will then go, at least in part, to pay the salary of an additional meter reader, or lineman, and will thus appear as a new demand for labor because of the labor-saving device which this manufacturing plant has introduced.

The remainder may go in full to increased income for the company. It may be a hydroelectric plant. What happens to this income? Either the company will disburse it as increased dividends to its stockholders or retain it in business and invest it. If it goes to the stockholders, then the stockholders will have a new source of income equal to the added net income of

the power company, and they in turn will spend it either for goods or services—and these goods may be either consumers' goods or capital goods. If the company decides to retain it and invest it in the company itself, it means an expenditure for increased plant facilities.

Now, whether the stockholder or the power company spends this new income for goods of any kind or for services, it will mean, if we trace the chain of transactions far enough, a new demand for labor equal in amount to the total of the new income. In the same way, it might not appear on first sight that the additional amounts which the power company might set aside for depreciation reserves—because of the increased power load—would mean a demand for labor of this amount of money. If, however, we will trace out what becomes of this money so placed in depreciation reserves, we will find that ultimately it means a demand for labor of the amount so set aside.

If we will follow through the disposition of the remaining part of the \$800 machine operating expense, we will find in the same way that inevitably this means, sooner or later, a new demand for labor equal in amount to the money spent for such other purposes.

In the same way, take the \$10,000 of net saving to the manufacturer. Let us assume, in the first place, that the prices and sales of the manufacturer's goods remain as before. Nobody on the outside knows that the labor-saving device has been introduced, none of his competitors is making similar changes, the market remains undisturbed for the product, and he can continue to sell the product at the original price, in the original volume, and therefore pocket the whole \$10,000 of saving.

Now, whether he saves it and invests it in capital goods, or spends it for additional consumers' goods or personal service, all of the \$10,000 that formerly went to his employees will sooner or later, in some place or other, go to somebody's else employees, or to his own, in case he uses it to hire additional help in his plant. The money is bound ultimately to appear as a demand for human service equal to the amount laid off in the factory. It is automatic.

On the other hand, let us assume that competition forces him to lower his prices and therefore, in the course of a year, he has to hand on all of that \$10,000 of net savings to the consumers of his products. If he does, the consumers who have been buying that product will have, in the course of a year, \$10,000 more to spend for other things, because they can buy this product for \$10,000 less than they have been paying, and ultimately this means an increased demand for labor in this amount.

The picture I have given is typical, but there are exceptions. Thus, a manufacturer might utilize his increased income to reduce his outstanding commercial bank loans, and the money would therefore not be spent either

for goods or services. In this instance, the re-employment would not be an automatic process, but it would still not involve permanent unemployment. It would simply mean that the pressure of the unemployed on the labor market would force down wage rates and ultimately prices until the amount of money left in circulation was sufficient to finance increased production with full employment.

There are other circumstances which often occur in connection with the introduction of labor-saving devices and which interfere with the process of re-employment, but a long study of this problem has convinced me that these events do not tend to create permanent unemployment.

In other words, if we trace all of the new transactions which are set in motion by the introduction of labor-saving machinery or methods, we will find that a decrease in the demand for labor at one point because of the introduction of labor-saving machinery will, in nearly every instance, automatically appear as a new demand for labor in equal amount somewhere else. Too often, in economic problems, we draw conclusions from the initial effects of a given factor and do not follow through the chain of new events which are set in motion.

### Net Gain

To be sure, certain trades have been abolished by machinery—as in the case of automatic glass-blowing machinery. Possibly, as in this instance, the earning power of some individuals has been decreased, and may, so to speak, be permanently decreased. During their lifetime they may never again have the same earning power as they had as skilled manual artisans. But the income of others has been increased and is bound to be increased because of the increased demand for highly skilled machine builders and operators, and the lowered price for the more efficiently produced goods. Society as a whole, including labor, has made a net gain.

Also, it is true that there may be a permanent decrease in the number of jobs available in small industrial centers. In a silk mill, for instance, located in a town in which it is the only industry, and a stretch-out system, or more automatic machinery is introduced, there may be, at least during the lifetime of those workers now living in that town, a permanent decrease in the number of jobs available in that community because of the introduction of such methods of machinery. But the saving that is made to the manufacturer because of the introduction of those devices, and the decrease in payroll, is bound to appear somewhere else in the country as a new and increased demand to an equal amount.

That, of course, does not solve the problem for those particular people. They have to change their jobs. They must, in many cases, change the location of their jobs. But the point I wish to make is that because of the intro-

duction of a labor-saving device there has been ultimately no change in the total demand for labor. The restriction in the demand for labor is purely a temporary phenomenon.

Also, it is true that there may be, as the result of the introduction of labor-saving machinery and methods, a permanent decrease, at least during the lifetime of those now working, in the number of people employed in any one industry. The increase in the demand for a given product, because of lower prices, may not re-absorb all those who were put out of work. In fact, manufacturing industry as a whole may not re-absorb all those thrown out of their jobs, since consumers may choose to spend the savings which they make on the lowered prices of machine-made products for the purchase of additional personal services, rather than tangible goods. This, indeed, has been the general tendency over the past hundred years. The relative number of those engaged in the personal service industries has been constantly growing.

### **Labor-Saving Devices Sometimes Increase Employment**

This does not always happen. Sometimes the savings resulting from the introduction of labor-saving devices actually increases the number of jobs available in that particular industry within a very short time. Perhaps the most striking example of that in this country is the automobile industry. There is no doubt that, if the process of manufacturing an automobile were the same as it was in 1900, we would have only a very small fraction of the people engaged in making automobiles that we have today. It is because of the economies resulting from the introduction of automatic and semi-automatic machinery, that the employment in that industry has grown by leaps and bounds.

However, that does not mean that the automobile industry has increased the total opportunities for employment in this country. It has not. It simply means that more people have been diverted to that industry than would have been engaged in it had it not been for the introduction of labor-saving devices.

I ask those who say that there is no hope, even if business picks up, of employing perhaps five millions of the people now unemployed, to consider this possibility: Give me these five million people and let me take them to an island with self-sufficient natural resources. I shall catalog what they want in the way of shoes, clothing, household furniture, housing, automobiles, radios, etc., and when I have found out what each of them would buy if they had their normal buying power, I would set them to work, dividing them up so that goods would be produced in proper proportion, and all of those five

million people could be put to work. The more machinery we had to work with, the higher would be our standard of living.

But you may say, if you take five million people out of this country, there would be more unemployed because these people are consuming goods at the present time, and therefore you would have to take a fresh batch of them, and so on, and finally you would get all the people on your hands. I would say "no" to that.

Where are those five million people getting their purchasing power from, to buy the goods they are now buying? They are either getting it from public or private sources. If they are now being supported by public agencies and the money is being raised by taxation, then taxes would go down in the amount being spent out of our public treasuries for their support. Therefore, you and I, as taxpayers, could resume buying things for ourselves and not for somebody else. Therefore, the total demand for goods and services would remain as it is today with these five million people here. In the same way, if they are now supported by charities, community chests or welfare agencies, take these people away and that amount of money would be released to buy other goods and services in the same amount. To be sure, when we got the purchasing power back we would not be spending it for the things we are today. The demand for food would go down, but we would then spend our money for radios, entertainment, gasoline, or some form of capital goods; and therefore, the total demand for goods and services would be the same as it is today.

Even if these five million people were supporting themselves entirely by withdrawing their savings from the banks, their removal from the community would not decrease the total demand for goods. Why? Because the flow of savings of other people, which are now being diverted to the purchase of securities from the savings banks in order to turn back to the unemployed their past savings, would then be used either initially or ultimately for the purchase of new capital goods. The withdrawal of these people would thus mean a shift in the demand from consumers' goods to capital goods, but the total demand would remain undiminished.

This hypothetical picture of removing the unemployed to a new commonwealth is not advanced as a practical solution of the unemployment problem, but merely for the sake of trying to bring out the fact that there is no inherent reason why these people should remain permanently unemployed. We now have more than adequate capital equipment for them to work with, and the cause of their continued unemployment is not our productive efficiency but defects in other elements of our economic structure which do not come within the scope of this paper.

If anybody had had the audacity to forecast at the time of the Civil War how many bushels of wheat, pairs of shoes, etc., would be produced

in 1933 with a day's labor, most people of that day would have said that more than a majority of our laborers of today would be unemployed, unless there were a very material reduction in the length of the working week.

In the same way, if I could accurately predict the efficiency of human labor 100 years hence, many would say that we would be forced to choose between millions of unemployed and a much shorter work week. Each generation has faced this problem and it always comes to the fore in times of business depressions. But each time we swing into a new era of business activity unemployment is reduced to about the same relative proportion. We always have an irreducible minimum of the unemployed because of the voluntary or involuntary shifting of jobs by those previously employed, or those who are seeking work for the first time.

### **Effect of Labor-Saving Devices on Wages**

I shall not enter into a statistical verification of the statement that the standard of living of workmen has been made constantly higher with each increase in the efficiency of human labor through better machinery and more power. To be sure, there have been minor recessions from time to time, but no one can question the marked general tendency.

Competition has forced the owners of capital equipment to accept in the form of dividends or interest a rental for the use of their property, which is far less than its value to society, as a means of increasing the flow of goods and services which all enjoy.

Some have been disturbed by the fact that the proportion of the sale price of goods which goes to capital has been constantly increasing, but this is merely a reflection of the relative increase in the amount of capital equipment which has been used in the production and distribution of goods. Such increases would certainly not have taken place had it not meant that the total flow of goods and services would be increased thereby. And it should be noted that the purchasing power in the hands of a capitalist, be he a man of wealth or a receiver of interest from a modest savings bank account, is as effective in sustaining the demand for goods and services as it is in the hands of a wage earner.

### **Census Data Support Theory**

Is there any factual evidence to back this thesis that machinery does not tend to create permanent unemployment in the country taken as a whole? A sufficient answer may, I think, be found in the records of the Census Bureau which show that in 1930 a larger percentage of our people were gainfully employed than ever before on a census date, despite the fact that general business conditions were not so good at the time of taking the 1930 census as they were at the time of the three previous censuses.

In summary, then, we may say that whereas labor-saving machinery and devices often cause what might be called permanent unemployment in particular trades, industries, or localities, it does not tend to create permanent unemployment for the country as a whole. In times of business activity, the number of people who can secure employment—except for the irreducible minimum of the floating unemployed—is approximately equal to the number of people able and willing to work. And labor-saving machinery and methods unquestionably tend to increase the wages of the working population taken as a whole.

We should not, however, be blind to the fact that the introduction of labor-saving devices often causes serious personal hardships which do not seem at all fair to one socially minded. But this problem is being met adequately by some individual concerns and there is no real reason why we should postpone the further introduction of labor-saving machinery and methods.

Machinery has enormously increased our economic well-being and released an untold amount of human effort for the advancement of our physical, intellectual and spiritual well-being. Let it continue to do so and let us not attempt to put a stop to it on the false notion that labor-saving machinery and methods create permanent unemployment for the country as a whole. As we make advances in human efficiency, we may utilize this advance to secure either a greater flow of goods and services, or a greater amount of leisure. We are not forced to accept the latter alternative, as so many think at present.

Let us, therefore, not waste our energies in fighting the introduction of more efficient methods which inevitably raise the standard of living of all. Rather, let us direct our energies toward: 1. working out an effective and equitable solution of the problem of temporary unemployment and readjustment which labor-saving machinery and devices often create; and 2. seeking out and correcting the real defects in our economic structure which are responsible for these recurring periods of severe and prolonged unemployment.

# THE MANAGEMENT INDEX

## Abstracts and News Items

### GENERAL MANAGEMENT

#### How Business Is Solving Its Management Problems Under the Blue Eagle

A summary of a survey to determine what problems are involved in doing business under the NRA and how they have been solved:

1. Reports of 100 large companies that give complete figures as to previous people employed and present people employed, show that in these large companies the increase in employment has been about 15 per cent. This does not necessarily apply throughout industry, however.

2. Companies that retained their personnel departments in at least a skeleton form now appreciate the wisdom of doing so. The load on personnel departments in selecting and training new people has been great, and experienced personnel people have been invaluable to their companies.

3. Many people who have been doing the hiring believe that one of the possible dangers of the whole NRA program is that people looking for jobs feel that they are guaranteed one, and that it will be more difficult to inspire in them the desire to do good work.

4. While many executives are troubled concerning the new point of view toward labor relations, the majority feel that perhaps the necessity for increasing purchasing power is the only question of importance.

Practically all of the companies that reduced hours of work changed the rate of pay so that the workers received the same amount of pay for the present number

of hours of work as they did previously. Executives do not know yet how the shorter hour problem is to be solved. Approximately half of those reporting on this point included some statement that they have not made definite plans as yet.

The more far-sighted business men are paying no attention to the question of "cheating" by competitors. A few astute business men foresee that the important part of what is happening today is merely that the industries are being organized for self-government and for cooperation with all industries to meet national needs. They realize that hours may have to be shortened even more, for the truth of the matter is that no hours of work suggested anywhere today are short enough to solve all of the problems involved. In the light of these facts present day avoidance of detailed rules becomes comparatively unimportant. Nevertheless, it is expected that sometime soon the NRA will do some "policing" in some form or another. *System and Management Methods*, September, 1933, p. 383:6.

#### A National Transport Policy

Co-ordinator Eastman is engaged in preparing a series of legislative measures which should bring American railroad service and operation somewhere near the degree of national rail co-ordination common to other large nations. But of necessity, highway and water transport in competition with railroads must also be brought under any national transportation plan if it is to be effective. In comparison with the United States, Europe is far in advance

in elaborating national transport policies. The American fetish of competition has not there handicapped co-ordination of railway service. The conception of the transport system as an instrument of national economic policy is far more clearly conceived and applied in Europe. The network of rail, highway, and water systems is considered as a whole, in a manner which will take years to achieve in America. The removal of excessive restrictions, the relaxation of excessive regulations, equalization of fiscal burdens upon competing forms of transport, and a conscious protection of the long established freight rate structure—so vital to the national economies—are all subjects in which valuable lessons may be learned from impartial surveys such as that conducted by the International Chamber of Commerce. By Richard Eldridge. *Barron's*, September 11, 1933, p. 6:1.

#### Seventh Congress of the International Chamber of Commerce

Official report of the proceedings of the meeting held in Vienna, May 29-June 3, 1933. *World Trade* (International Chamber of Commerce), July, 1933, p. 5:30.

#### Measuring Executive Accomplishment

Recent publicity given to the salaries of life insurance presidents illustrates the essential unfairness of discussing the problem of executive accomplishment without complete knowledge of the difficulties surrounding the work and the capacities demanded of an executive. That the compensation of executives is related to the size of an organization cannot be disputed. For as an organization increases in dimensions the problem of integrating it both internally in all its ramifications and externally with the competitive environment becomes increasingly difficult, and executive capacity assumes a correspondingly greater importance. The compensation of executives must, of course, recognize their increasing value. There is, however, a size beyond which it is uneconomic and unde-

sirable for an organization to grow.

In the last analysis, the problem of establishing an optimum size of organization resolves itself into the ascertainment of that particular level of effectiveness on which all the vital factors are so perfectly balanced, and executive talent and capacity are so purposefully and successfully employed, that maximum service and profit possibilities are regularly realized. The fact that such a goal is difficult of attainment is no reason for not recognizing its existence and, at least, striving to approach it as closely as possible. By Harry Arthur Hopf. *N O M A Forum*, June, 1933, p. 3:4.

#### Nira Takes Up Housekeeping

Following a period of courtship and flirtatious engagement, American Industry finds itself married to Government, with no prospect of divorce.

An outstanding feature of the present situation is that there are two wholly distinct experiments under way. One is the flight of General Johnson's Blue Eagle, under which industry is being asked to ante what is left of its liquid capital and its credit in the national wage pot, with the hope that each will later get more out of the pot than was put in. The other, by whatever name called—integration, regimentation, rationalization—conceives every industry as a social and economic unit under centralized control.

The first is an immediate, emergency proposition to forestall the necessity of meeting a social problem of the coming winter by printing money or further confiscating capital through taxation. The second is a long-view experiment in a planned, industrial civilization. The first is moving quickly and its results will be reasonably apparent soon. Public attention is riveted upon it. The second cannot move quickly. Its objectives are frequently confused even in the minds of those conducting it. Its effects are not readily apparent. Ample opportunity is afforded for reflection.

It is quite possible to carry on a great patriotic movement and still maintain some semblance of constitutional government, else the country may wake up and find it has lost more than it has gained, even if the experiment should prove wholly successful. While many American industrialists have that blissful anticipation of complete marital happiness which comes from inexperience, others have been married to governmental agencies before. And some of the children of such marriages have been very costly. *National Sphere*, September, 1933, p. 9:4.

#### Unbridled Competition Gives Way to Managed Cooperation

It has required one hundred years to realize that unbridled competition is wasteful and that the public pays the bill. In the United States during the past ten years 218,000 new businesses have come into existence each year, and 200,000 have closed their doors. Such an annual birth and death rate in business means a loss of billions of dollars. The resulting increased prices have contributed, in a marked degree, to a slowing up in the distribution of commodities. Cut-throat prices, bids and credit terms have wiped out a broad list of profits and destroyed the ethical bases upon which business must rest.

When managed economy takes the place of competition, responsibility will become

definite, and subject to bitter controversy. When changes occur in price levels, volume and costs, there will be required a speed in adjustment that has always challenged individualism, let alone a slow co-operative trade or Government control. When business activities are controlled they tend to become static, with a severe modification of individual effort. All these problems involve the substitution of the human factor for the automatic.

Less than a generation ago the socialistic principle that men had an inherent right to work raised a storm of controversy. Today it is accepted. It remains to be seen whether this eventually means the responsibility of each trade for its employees, or whether the responsibility will be assumed by the Government. This is largely a problem of insurance as over and against relief. By Stephen J. Miller. *The Manufacturing Confectioner*, September, 1933, p. 46:3.

#### New Deal Highlights Importance of Effective Public Relations

A consideration of the chief elements to be considered in drawing up a program of public relations activities for trade associations: Messages to members, messages to the trade, consumer education, employee education, the exposition, the convention, research, market research, product development and merchandising service. By Ben Nash. *World Convention Dates*, September, 1933, p. 24:2.

## FINANCIAL MANAGEMENT

### Three Problems of National Business Recovery

"National economic recovery," the President of the University of Wisconsin states, "involves three intimately interlocked problems: 1. the financial problem of credit and currency; 2. the psychological problem of confidence; and 3. the economic problem of effective enterprise." In discussing these problems individually, he

points out that to be truly stable, a credit and currency system must be quantitatively adequate, technically sensitive and socially responsible. "We are not," he affirms, "suffering from a shortage either of credit or currency. . . . If we could thaw out the frozen confidence alike of borrower and of lender, the flow of credit and currency would quickly fertilize the field of national enterprise." The requisite con-

fidence, however, cannot be restored by mere cheer-leading tactics on the part of presidents, congressmen, and captains of industry.

Speaking of the broader economic problems, he states that regardless of the intelligence we bring to our domestic difficulties, the effort will be useless unless we bring a bold and realistic spirit to bear upon the present unrealistic foreign policy of the United States. He accordingly recommends a reduction of tariffs and a more enlightened policy in regard to war debts so that there can be a general re-opening of world markets. It is his opinion that the leadership that has determined our policies for using goods and distributing wealth has proved inferior to the leadership that has developed our processes for making goods and producing wealth. We therefore have no right, he concludes, "to consider slowing down production until we have fully explored the possibilities of speeding up consumption." By Glenn Frank. *Credit and Financial Management*, September, 1933, p. 10:6.

#### The Missing Link

The credit problem, Professor Fisher states, is the one missing link in the whole recovery program. The banks have been too badly frightened to undertake a widespread expansion of credit even when stimulated by the open market operations of the Federal Reserve. It seems quite probable that nothing will come of the present offer of the R.F.C. to lend to the banks at 3 per cent if the banks will re-lend to industry at 5 per cent. Meanwhile the need for credit is becoming more acute as industrial costs rise. "If the bankers could take united action," Professor Fisher concludes, "they might be made to see that by liberalizing credit on a national scale, they would reduce the risks which they fear. But the American banker is too individualistic for that. What will probably happen, after more loss of precious time, will be that the Reconstruction Finance Corporation will build up new

machinery of its own—a new sort of cooperative mortgage company organized among industries in each locality to be served by the R.F.C. Then our Government will be 'in the banking business' for fair. This may be hard on bankers but, if so, the public will say 'it serves them right.' One thing is evident, that the Administration is determined that, with or without bank-aid, the NRA will not be allowed long to lack financing." By Irving Fisher. *Irving Fisher Weekly Article*, September 25, 1933. 3 pages.

#### Merchandising Money

An important aspect of merchandising which has taken on added importance because of its freshly discovered relationship to the "New Deal" is the question of consumer credit and of the rates charged by merchant-lenders to instalment customers. This article emphasizes the need for a fresh approach to the money-merchandising function of retailers, the need for clarifying the actual cost of instalment credit.

The soundest platform for instalment men to congregate on is the endorsement of monthly rates on actual current balances, it is pointed out. This will stimulate faster payment of loans, it will fit the spirit as well as the letter of the New Deal, and it will stimulate competition in efficiency "instead of merely stimulating rivalry in the art of concocting fairy tales." By Constance Kent. *The Merchandise Manager*, September, 1933, p. 11:5.

#### Distribution Cost Analysis and Its Influence on Pricing Policy

The chief statistician of the Dennison Manufacturing Company points out that whereas most of the pioneering work has been done in connection with the costing of manufacturing activities, the determination of distribution costs constitutes practically a virgin field for the talents of cost accountants. In his analysis of the problems in this neglected field, the author discusses the disposition of ware-

house, shipping and office expenses, the scheduling of salesmen's calls to regular and occasional customers, salesmen's reports, selling by mail and advertising. Several pricing policies are outlined to the extent that they influence the relationship between selling prices and the control of the various classifications of manufacturing and distribution costs. By E. S. Freeman. *N. A. C. A. Bulletin*, September 1, 1933, Sec. I, p. 3:35.

#### **Some Advantages of Uniform Accounting Systems for Trades**

Considerable impetus to discussion of the adoption of uniform accounting systems by trades and industries has been given by the NRA.

Some of the chief advantages of uniform accounting are outlined: 1. It makes possible the exchange of ideas and experiences by members of the same group by endowing each accounting term with an exact meaning; 2. It enables each member of the trade to compare his costs in detail with that of similar concerns and determine which items are excessive and which are satisfactorily low; 3. It enables a trade to establish guide figures upon which to base trade practices; 4. It allows the compilation of comparable statistics pertaining to the entire trade from which it may be possible to determine the extent of over-production, over-capacity, overlapping trade territories and may finally lead to the elimination of wasteful and destructive competition.

Inauguration of uniform accounting by any trade, it is pointed out, is now very simple and inexpensive. *Domestic Commerce*, September 10, 1933, p. 71.

#### **Business and Personal Failure and Readjustment in Chicago**

Analysis of the factors influential in 1,431 bankruptcy cases in Chicago indicates that about one-half of the individual proprietors failed because of discernible errors in management, and that environmental conditions over which they had no control accounted for the bankruptcy of an additional

one-fourth. One-tenth of the proprietors were found to have suffered reverses due largely to family affairs such as illness, while one-fourteenth sacrificed their regular business to the whims of speculation. Mismanagement and general incompetence, inadequate accounting, poor service to customers, and failure to control overhead expenses are factors associated with failure given weight in the study. By John H. Cover. *University of Chicago Press*, 1933. 106 pages.

#### **A Study of Salaries of Life Insurance Executives**

An analysis of the practices in ten life insurance companies with respect to the remuneration of executives. From the figures presented it is concluded that no basis exists for general criticism of the validity of the various salary levels in effect in the ten companies analyzed. Life insurance executives, beginning with the year 1911, have been remunerated upon a basis which shows a steadily declining relationship to the funds which it has been their responsibility to build up and protect; moreover, the total salary funds distributed have been shared by a continuously expanding personnel, and the salaries paid between 1916 and 1931 have not had a purchasing power equal to that of 1915 or earlier. By Harry Arthur Hopf. Reprinted from *The Spectator*, issues of June 8 and June 22, 1933. 22 pages.

#### **Do Savings Hamper Prosperity?**

A theory is widely held that the business depression which has brought such suffering during the last four years was caused by too much saving. The indications are that the present Administration in Washington subscribes to this theory since its policy is to increase wages and thus place purchasing power in the hands of those who will spend rather than save it. The author admits that saving may have been a partial cause of the depression insofar as savings found their way into bad investments. "But," he concludes, "however wrongly some savings may have

been invested, saving itself has too precious a function in society to justify placing it under the ban." By Simon Newcomb Whitney. *Commerce and Finance*, September 13, 1933, p. 788:1.

### Opportunity Awaits Credit!

Ordinarily, one of the first things shattered by a panic is credit—such at least has been the experience of most European countries. The Secretary of Commerce points out, however, that despite various cracks and fissures which have developed in our credit structure, statistics reveal convincingly that the credit of our country is sounder today than in any previous major slump. Bad-debt losses in the retail trade have only increased from six-tenths of 1 per cent in 1930 to 1½ per cent in

1932—which he maintains is an adverse change of a "wholly inconsequential character."

The don'ts which underlie efficient credit policies are known and the body of information concerning them is constantly being added to as a result of the studies undertaken by the Department of Commerce. "The next step," Mr. Roper states, "is to get credit men . . . to make practical application of the things that stand revealed. . . . We need higher credit standards, uniform credit terms, coordination of credit-information sources, greater cooperation between debtors experiencing financial difficulties and their creditors, and orderly methods of liquidating insolvent concerns." By Daniel C. Roper. *Credit and Financial Management*, August, 1933, p. 8:5.

## Insurance\*

### Ruling Limits Valued Policy Cover

The Louisiana Supreme Court recently rendered an interesting decision which deals with improvements on leased property. It was held that where such improvements are made, which by the terms of the lease are to become the property of the owner of the building at the expiration of the lease, the lessee can recover only the value of the use of such improvements for their unexpired term. On rehearing, the court stated further that the insured by the contract of lease, was not the owner of betterments, but merely had the right to use these improvements until the termination of the lease. *The Insurance Field*, August 31, 1933, p. 17.

NOTE.—If the lessee continues to use the property, and must restore the improvements, he will suffer a considerable net loss if he does not recover under his insurance policies the full replacement value of said betterments, less normal depreciation. The same holds true if he renews the lease on similar terms. The insured has full insurable interest unless the lessor

assumes responsibility for an increasing value, equivalent to the lessee's diminishing value for the unexpired term of the lease.—Ed.

### The Aims of Unemployment Insurance With Especial Reference to the Wisconsin Act

The Wisconsin Unemployment Compensation act is based upon the theory that individual unemployment reserves will tend to stabilize industry. As a result, the act is essentially a stabilization rather than a relief measure. The maximum levy of 2 per cent of the payroll is equivalent to only about .5 per cent of costs. Because this is a small factor compared to other costs and risks, it is unlikely to provide an effective deterrent to expansion.

This act appears not only to be ineffective as a stabilizing device but also to be inadequate as a relief measure. The unemployed can expect little direct relief from legislation based upon the stabilization principle. The heaviest burden is imposed upon firms least able to bear it and

\* Insurance abstracts are contributed by P. D. BETTERLEY, Assistant Treasurer, Graton & Knight Co.; Vice-President in Charge of Insurance Division, American Management Association.

many unemployed are without protection. These defects are inherent qualities of this type of legislation and not accidents of this particular act. It appears that the three-party insurance plan is preferable to the Wisconsin plan. By Walter A. Morton. *The American Economic Review*, September, 1933, p. 395:18.

#### Hours Worked Basis for Compensation Insurance Premium

The Builders and Manufacturers Mutual Casualty Co. has recently adopted the Barnard workmen's compensation insurance rating plan which bases premiums for workmen's compensation insurance upon the hours of exposure rather than upon the payroll. The company points out that there is considerable unfairness in basing

compensation on payroll which varies greatly in the different localities and from year to year. If the premium is based on hours of exposure, there is equitable distribution. *The Weekly Underwriter*, July 15, 1933, p. 117.

#### What the National Bureau of Casualty and Surety Underwriters Is Doing

Theoretically, this Bureau was created to advance the best interests of its members, but in reality it is a public service institution. Aside from its purely technical underwriting activities of rating, etc., there is a determined effort to fight the claim fraud and to develop accident prevention plans. Other interesting information is furnished in this article. *The Spectator*, August 10, 1933, p. 6:3.

## OFFICE MANAGEMENT

### Organization: Job Analysis, Employment, Pay, Tests

#### Employee Loyalty Hits a New Low

Some companies are wasting one of the greatest assets they possess—the loyalty of their employees—because of the "might makes right" attitude of supervisors which has developed since workers became more than plentiful, is the warning an employee of a large public utility corporation who analyzes the situation and concludes that stupidity or lack of understanding is the underlying cause of this loss. By William Baxter. *System and Management Methods*, September, 1933, p. 386:2.

#### Six Things Experience Has Taught Me About Hiring Men

In the first of a series of four articles on hiring and training new men, the director of selection and training work of the Household Finance Corporation gives his creed in the procedure for selection of men. He believes in: 1. The development of every possible source of good labor supply; 2. young, intelligent men;

3. objective tests being given new applicants; 4. telling an applicant why he is being turned down; 5. giving vocational guidance and encouragement wherever possible. The purpose of each interview with an applicant is two-fold—to afford the employer sufficient information concerning the prospective employee to make an intelligent decision; and to give the applicant full information concerning the job, its good points and its difficulties, its possibilities and its probabilities, in order that he may determine fully whether or not it is the opportunity he seeks. By Joyce Oliver. *Sales Management*, September 15, 1933, p. 259:4.

#### A Manual of Selected Occupational Tests for Use in Public Employment Offices

Prepared by Helen J. Green, Isabel R. Berman, Donald G. Paterson and M. R. Trabue. *University of Minnesota Employment Stabilization Research Institute Bulletin No. 3*, July, 1933. 31 pages.

### Space: Location, Equipment, Arrangement

#### The "Depression" and the Office

The office service manager of the American Optical Company outlines what has been done in the offices of some companies during the past few years to reduce general office operating expenses, including revised policies with regard to salaries paid to department managers and assistant supervisory heads; salaries or wages paid to productive workers; equipment, materials and supplies; general maintenance costs; auxiliary activities such as reception room maintenance, mechanical equipment repairs and upkeep, etc.; miscellaneous external expenses such as postage, telephone and telegraph, subscriptions to periodicals, business association memberships, etc. By L. H. Brigham. *Proceedings of the Fourteenth Annual Conference of the National Office Management Association, held at Hotel Pennsylvania, New York, N. Y., June 6 and 7, 1933, p. 33:12.*

#### Assignment and Control of Office Space

The problem of management for the immediate future in respect to office space assignments and requirements is probably going to be the determination of arrangements to meet changing conditions by expansion. Therefore, it will be very necessary to provide that part of the organiza-

tion in which expansion must occur with plans to grow according to logical arrangement and with facilities to make changes inexpensively. This calls for: 1. The designation of one individual who will be responsible for the control of office space and who will have the power to make decisions in this respect; 2. The preparation of ideal plans to be used as patterns by which to be guided in periods of expansion; 3. The determination of the extent to which it is practicable to adopt the ideal plan; 4. The use of the simplest and most mobile types of office equipment and furnishings; 5. A staggered lease arrangement. By Allen Everett. *Proceedings of the Fourteenth Annual Conference of the National Office Management Association, held at the Hotel Pennsylvania, New York, N. Y., June 6 and 7, 1933, p. 14:4.*

#### Do You Get Your Money's Worth in Electricity Used?

The author points out how many companies are losing money on light. He tells of common mistakes and exposes some of the sales points used by lighting "gyps." By Frank B. Rae, Jr. *System and Management Methods*, September, 1933, p. 388:3.

### Records: Forms, Charts, Cards, Files, Statistics

#### Investigation and Control of Records

The elimination, improvement, cost reduction and standardization of records are discussed. In any program for forms standardization, the author states, the first step is to investigate the utility of every form in use. The results of such work are valuable to the general management as a means of judging the quality of departmental management, as well as to offer, to the organization as a whole, certain set-ups of records suitable for more than one requirement, although not so used at present.

The investigator must know what information is necessary adequately to control the activities of the department, what records are kept, their use and cost, the purpose they serve, whether they can be combined, improved or eliminated, which would be the best media in the case of duplications, and what would be the most economical method of operating the records retained. Once this information is assembled and digested, it should only be necessary to demonstrate to the department head that nothing disastrous would happen to the business if certain records

were discontinued, in order to bring about the desired economies. By C. U. Stapleton. *Proceedings of the Fourteenth Annual Conference of the National Office Management Association, held at Hotel Pennsylvania, New York, N. Y., June 6 and 7, 1933, p. 26:4.*

**Proceedings of the 1933 Special Conferences of the Life Office Management Association**

Operation of the New Business Department; Organization for Property Management; Home Office Underwriting Practices and Procedures. Proceedings of conferences held at Hotel New Yorker, New

York, N. Y., April 24-25, 1933 and Lincoln National Life Building, Fort Wayne, Ind., June 12-13, 1933. *Proceedings of the Life Office Management Association.* 262 pages.

**A File Which Remembers Names**

A plan is outlined in which a classified filing list supplements the usual alphabetical filing system. Thus correspondence may be traced when the subject matter of the letter but not the writer's name is recalled. A partial list of such a classification is given as a sample. By William C. Fockele. *The Office Economist*, July-August, 1933, p. 12.

## PRODUCTION MANAGEMENT

### Plant: Location, Lighting, Heating, Ventilation

#### Paint Up for Efficiency

A discussion of how the plant man has made paint an efficient tool of management. By R. B. Schubert. *Mill & Factory*, September, 1933, p. 23:3.

#### Horsepower Equipment in the United States, 1869-1929

The merits and faults of the horsepower equipment index as an index of machinery installation are reviewed. Certain defects in horsepower statistics are pointed out. The growth in total horsepower capacity of prime movers is shown by decades from 1869 to 1929, for the country as a whole and for manufacturers, mines and quarries, agriculture, irrigation and drainage, electric central stations, electric railroads, steam railroads, ships, productive and pleasure automobiles, commercial aircraft, and work animals not on farms. Total horsepower of equipment operated by owned and purchased power is also shown for each field. The various fields are grouped in major classes—materials, manufactured products, and heavy and light transportation—and the horsepower totals of each are compared over the sixty-year

period. The percentage distribution and relative growths of the different types of prime mover equipment—steam, internal combustion, water, wind, work animals, and purchased-electricity—are given by decades. Certain uses of the horsepower index are suggested. By Carroll R. Daugherty. *The American Economic Review*, September, 1933, p. 428:13.

#### A Survey of Industrial Maintenance

A report of a study of 26 nationally known manufacturing plants in Philadelphia having 432 employees engaged in industrial maintenance. The replies indicate that large plants with more than 25 employees engaged in maintenance work are seriously thinking about the practicability of installing wage incentive plans in this department. The importance of maintenance engineers has been enhanced as their functions have become standardized and systematized in large plants.

The trend during the past three years to attempt to keep inventories of maintenance supplies at a minimum will probably be continued regardless of changes in business conditions which might justify purchasing larger stocks of maintenance ma-

terials for factory stocks. Analysis of the survey shows that maintenance inventories are now approximately one-fifth of the average annual purchases of each plant,

week to week needs being purchased in the majority of cases from local distributors rather than direct from manufacturers. *Mill & Factory*, August, 1933, p. 31:3.

### **Training and Education: Schools, Libraries, Apprenticeship, Employee Publications, Bulletin Boards**

#### **How Are You Going to Train Your New Operators?**

In many plants large groups of new and inexperienced workers have been taken on, and the problem incident to turning out considerably increased production leaves but little time for the job of training them to become good operators. Don't take your best men off production to train green help, the author warns, advocating the use of the process chart instead. He concludes: "Process charts pay. They develop a

questioning attitude that considers the good of the plant rather than that of a department or individual. They indicate the best type of operator and equipment needed, determine when the work can be most economically performed, even out the flow of work, eliminate unnecessary effort, and point to further improvements. As a training tool, and a rapid one, they are unequalled." By Allan H. Mogensen. *Factory Management and Maintenance*, September, 1933, p. 351:3.

### **Industrial Economics: Labor and Capital, Legislation, Wage Theory, Immigration**

#### **A Code for Labor Unions, Too?**

A national labor policy for the emergency alone is the paramount need of the hour. Unless it is formulated the road ahead will see strikes that will grow in violence and intensity and the NRA program will be retarded.

During the war national interest superseded everything else. No class was permitted to exploit the emergency for its own advantage. Labor did its part nobly. Everything was subordinated to the main objective. What prevents the same situation from occurring today is that inside labor's ranks are many who would rather see a permanent change made giving labor maximum advantages without regard to its effect on other classes. This is neither cooperation nor constructive progress. For several weeks business men have quietly been criticizing what they believed to be the domination of NRA policies by labor groups. It would be unfortunate if the Government of the United States were used by any group for its own selfish in-

terest. It would be deplorable if at this stage of the emergency any important group lost confidence in the fairness and sense of justice of any agency of our Government. No permanent benefits can be built upon such quicksands. The demand of the hour is for cooperation. And the responsibility on the Government to guide labor is as great as it is upon Government to guide employers. This is the essence of a national labor policy. By David Lawrence. *Industry*, September 16, 1933, p. 1:3.

#### **The Development of Unemployment Relief in Germany**

Unemployment insurance was instituted in Germany by the Act of July 16, 1927; its subsequent developments have accordingly been influenced by the economic depression and most of the changes made in succession in the system of unemployment relief have been inspired by necessity. In this article Dr. Weigert gives an account of these developments. It opens with a

general sketch of the various changes since 1927 in the official systems of relief for the unemployed; this is followed by more detailed accounts of the three main forms of relief: unemployment insurance (scope, benefits, and financial system), emergency benefit, and public assistance. The article concludes with a critical survey, based on the lessons drawn from the German experience, of the system as hitherto applied, and an attempt to set out the fundamental principles which, in the author's opinion, should form the basis of the future development of the system of unemployment relief. By O. Weigert. *International Labour Review*, August, 1933, p. 168:24.

#### **Contributory Individual Reserve Plan for Retirement and Unemployment**

The Hill Bros. Co. (shoes) has announced the adoption of an unemployment and retirement program for its employees on the individual reserve basis.

Hill Bros. Co. originated and have successfully operated for the past two years a seasonal unemployment plan. The company has now rounded out this program by completing arrangements to build up co-operatively with its employees further reserves to become available for unemployment of a more definite or permanent nature, including guaranteed life income for those employees who become permanently unemployed through old age. The features of the plan are outlined. *Industry*, September 9, 1933, p. 1:3.

#### **Works Committees**

The managing director of the Stanton Ironworks Company Limited summarizes his fourteen years of experience with works committees. The aim of these committees, as he conceives it, is to substitute as far as practicable some machinery which will take the place of the proprietor of old, who lived and worked among his people, and to provide in a large organization, through the personnel of the individual members of the committee, counselors to whom individuals can turn for advice and assistance.

Two rules have been found to be of the utmost importance in conducting meetings of the committees: "The first that the works committees avoid dealing with subjects which normally are dealt with between representatives of a Trade Union and the Company. In other words, these committees do not concern themselves with the making of bargains between the two parties. The committees do, however, concern themselves with the fair interpretation of bargains when once entered into; and it is frequently found that, after new agreements have been made between the Union and the Company, points arise requiring definition, which are referred to these committees for interpretation. . . . The second that no individual employee shall raise any point, or matter, at a meeting of the works committee until he has given his foreman an opportunity of going into the case." By E. J. Fox. *Industry Illustrated*, July, 1933, p. 2:2.

#### **Pension Plan for Employees of the Rochester Gas and Electric Corporation**

The Rochester (N. Y.) Gas and Electric Company has recently launched a contributory pension plan to cover all of its employees. The provisions of the plan are given. September 1, 1933. 12 pages.

#### **Soviet Economic Development Since 1928**

The most important feature of Soviet economic development since 1928 was the provision of a vast industrial plant based on the most modern technique, the whole amounting to an industrial revolution of almost unbelievable scope and depth. The second feature was the technical advance in agriculture, involving consolidation of holdings and the mechanisation of methods. The third feature was the solution of the problem of distribution which in the capitalist world makes it necessary for poverty to exist side by side with abundance. Finally, though the standard of living was not visibly raised, because of

the vast size and initial backwardness of the population, the material background for an immense future advance was provided.

The chief problem which faces the Soviet Government today is the task of providing a personnel with sufficient mechanical skill to handle and repair the vast new machines without getting in arrears. The Bolsheviks are alive to this necessity and "Master the machines" has been made the first slogan of the new Five-Year Plan.

This only can be said of the Plan—that in broad outline it achieved a great part of what it set out to do, at a cost which was calculated and was deemed worthwhile. By Paul Winterton. *The Economic Journal*, September, 1933, p. 442:11.

### Compulsory Labor Service in Germany

Compulsory labor service for all young men in Germany will begin on January 1, 1934. Physical disability is reported to be the only ground for exemption. Each one subject to the service will be required to work six hours a day for six months. One or two hours are to be given to instruction in political science and certain periods of the day to sports and recreation. Clothing, food, shelter, and all necessary equipment are to be furnished by the Government. No wages are to be paid, but a few cents per hour will be given for "pocket money." The men will be engaged on various kinds of public works, including reforestation. Report from C. W. Gray. *Monthly Labor Review*, August, 1933, p. 286:1.

### Benefit Systems and Incentives: *Pensions, Vacations, Profit Sharing, Wage Plans, Suggestions, Stock Ownership*

#### For Unemployment Insurance See Insurance Section

#### The Changing Sphere of Profit Sharing

Plans for sharing profits may be divided into three general groups, according to the objectives that they are designed to accomplish in the general scheme of plant administration. First, there is the group in which a desire to bring about what is considered to be social justice is the leading motive. The second group includes plans that have been introduced as a co-operative aid in building up for employees a financial reserve against unemployment, sickness, old age, or other vicissitudes of industrial employment. Plans in the third group have been conceived as stabilizers of the wage scale, to provide a flexible supplementary payment that will fluctuate with business conditions as reflected in the company's profit position, permitting the basic wage scale to remain unchanged.

Whether or not it is adopted more extensively in the future than in the past, it seems probable that profit sharing, in whatever form, will come to be regarded in a new light. The philanthropic im-

pulse is likely to be overshadowed by a broader conviction—that increasing consumer purchasing power is a fundamental need in the economic period that lies ahead.

Many observers believe that wage rates are too inelastic to provide for the distribution of the social income in a manner which will adequately insure mass purchasing power. It would be better, they argue, to continue to have wage rates determined by conditions of supply and demand in a competitive market and grant labor additional compensation as a share of business income when and if earned by the particular enterprise. The idea of making available to employees on some basis a share in the profits from a company's operation is still very much alive, as attested by the history of industrial relations policies during the last 10 or 15 years, and in some form it is likely to attract renewed interest when warranted by business conditions. *Conference Board Service Letter*, Aug. 30, 1933, p. 57:3.

**Employee Service: Hygiene, Recreation, Lunch Rooms, Stores, Safety****How Accident Costs Can Be Controlled**

The solution of the problem of mounting compensation costs lies principally in recognition by management that the supervision of accidents, insurance, and prevention work is as much a part of the business schedule as production or other activities. The greatest benefits may be derived from a careful survey of the physical hazards existing in the various operating units, the establishment of a reasonable safety organization, and the maintenance of continuous interest on the part of every individual in the organization; but management must take the initiative. Secondly, it is advisable to cooperate with insurance companies, semi-public safety organizations and trade associations in carrying on prevention work. Thirdly, and by no means the least, management must take a greater interest in legislative matters which pertain to this problem. By P. D. Betterley. *System and Management Methods*, September, 1933, p. 414:2.

**Employee Health Conservation**

When the revival has progressed to the stage where it will be necessary for industries to enlist the services of new workers, many of whom will have been unemployed for a considerable period of time, grave personnel problems will arise. The nature and implications of these problems, together with possible solutions, are discussed. Thorough physical examinations, both in-

itial and periodic, are stressed as being of paramount importance if the best interests of the company are to be served. By Dr. Hart E. Fisher. *Report of Monthly Meeting, Industrial Relations Association of Chicago*, April 10, 1933. 15 pages.

**Medical Costs in Industry**

Industrial medical costs, during the past years have progressively increased, and it is reasonable to expect them to continue to increase until adequate measures are taken to control them. The failure to control these costs is due to the lack of a program which takes into consideration all the factors concerned.

A preventive program, to be successful, must consider of equal importance the mechanical causes, the human causes and the physician who is especially experienced in industrial medical problems. Minor injuries contribute most to direct and indirect medical costs and a proper appreciation of the value of an adequate set-up for the treatment of these minor injuries is essential to any successful preventive program. Industries which, because of few employees, are not justified in installing a full-time medical service, can have a near approach to one by supporting an industrial physician who will give his undivided service to a group of them. By J. A. Turner, M.D. *Industrial Medicine*, July, 1933, p. 14:4.

**Shop Methods: Industrial Engineering, Standardization, Waste, Rate Setting, Time and Motion Study****This System Synchronized Boeing Production**

The Boeing Airplane Company has devised a production control system which shows graphically the status of each manufactured part, and whether production is ahead or behind schedule.

The routine provided to achieve this result is ingenious but relatively simple.

When blue prints for a particular contract are finished the production project man maps out a schedule of production. A master process card is made out for every part to be fabricated for the particular contract. This card gives the part name and number, contract number, the operation required, tools to be used, as well as the routing time through the various shops.

From this card shop orders are made out, showing operations involved, the shop doing the work, and information as to where the part should be routed on completion of the work. Space is also provided in this shop order for inspection reports, number of parts received by a shop, date, etc.

When a shop has completed the work on a particular order, and the work is OK'd by inspectors, the shop order is forwarded to the production office to become an important part of the production control records.

Progress is summarized into quick reference in a visible file index. By checking this visible index at regular intervals the production department can synchronize the work of the various shops so that final assembly will not be retarded by the lagging of any one shop, or the fabrication of particular parts. This moves the work

through the factory at a uniform pace, so that parts' storage and assembly space is never dead, nor do bottle necks occur due to avoidable delay on any one part or in any department. By Mandus E. Bridston. *Mill & Factory*, September, 1933, p. 27:3.

### Taking the Guesswork Out of Inspection

Indifferent inspection, believes the author, is one of the two great leaks in American industry. He describes in this article some of the many new scientific inspection methods and devices that are in use in a number of different industries today, pointing out their advantages to salesmen and to the plant, and stating that "the true duty of scientific instruments is not to eliminate the inspector, but merely to eliminate the inspector's guesswork." By E. E. Free. *Executives Service Bulletin*, July, 1933, p. 7:2.

## MARKETING MANAGEMENT

### The Cost of Marketing

The total cost of marketing in the United States during the year 1929 is estimated by the author to have been approximately twenty-seven billion dollars. Breaking the figure down into its component parts, he finds that retail costs represented about thirteen billion dollars; wholesale, about six billion; transportation, about four billion; and manufacturers' selling costs about four billion. In discussing the cost of marketing, however, there are three fundamental facts which must be borne in mind: first, that over a long period of time costs have necessarily risen, due to the bigger job that the marketing system has been called on to perform; second, that there is no such chance for mechanization in marketing as there is in manufacturing; third, that cost changes during depressions and periods of rapidly falling prices do not represent fundamental trends in marketing costs.

"One of the important needs in marketing," the author concludes, "is careful

analysis of selling expenses by commodity handled, by size of order and by customer. Companies that have made such analyses invariably find that they are losing money on a large proportion of their customers, and also that many individual orders are so small that they are handled at a loss. It frequently develops that approximately 80 per cent of manufacturers' and wholesalers' sales are made to approximately 20 per cent of their customers." By L. D. H. Weld. *Bulletin of the Taylor Society*, April, 1933, p. 26:5.

### Consignment Selling Scores on the Price Rise

Throughout the period of falling prices, consignment selling flourished as never before despite the fact that manufacturers who thus attempted to force their goods upon an unwilling market suffered many unfortunate experiences as a result. With the first indication of a price rise, however, the situation changed. Outright-selling manufacturers must slow up their

production after each increase in prices. The consignment-sellers, on the other hand, run full tilt, replacing the goods of all their consigned stocks. Indeed, after having profited from the convenient stock right at hand, the jobbers and dealers file requests for even larger consigned stocks than before. The upshot of the whole process is enough to nettle any industry, and consequently, trade after trade is seizing its opportunity under the authority of the NRA to agitate for the abolition of consignment selling as an unfair method of competition. By Angus E. Graham. *Advertising & Selling*, August 3, 1933, p. 17:3.

#### **How Chrysler Is Selling Dealers on Building Better Sales Man-Power**

At 39 dealer meetings held early in July, Chrysler Sales Corporation used a series of giant charts to encourage dealers to hire more salesmen to be put into immediate training at Chrysler's expense. After presenting a vivid picture of the company's position and prospects, Chrysler argued that it takes men to cash the demand being created by the current intensive advertising program—that the dealers who are without adequate man-power simply cannot meet the forthcoming competition. Sales schools will be held in 62 cities to train the new retailmen now being brought into the organization. The charts used are illustrated. *Sales Management*, Aug. 1, 1933, p. 124:1.

#### **Channels of Distribution for Manufactured Goods by Industries**

Edited by Theodore N. Beckman, *Ohio State University*, May, 1932. 199 pages.

#### **Consumers' Cooperative Societies in 1932**

More than eleven and one-half million dollars of business was done in 1932 by 90 consumers' cooperative societies for which the Bureau of Labor Statistics has reports. Of this more than four million dollars was accounted for by three wholesale societies.

A net gain on the year's business of \$386,000 was reported by 74 of the 90 societies, while combined losses of 11 others amounted to over \$43,000.

Retail distributive and wholesale societies reported decreased sales as a result of the reduced purchasing power of the members. Considering the fall in the price level, the decrease in the volume of goods sold in 1932 as compared with 1931 was less than 5 per cent in the case of retail societies and about 6 per cent in wholesale societies. The gasoline filling stations showed increased money sales in spite of falling prices. Although the 35 cooperative oil associations had small average sales—\$46,345 per society, as compared with \$116,724 for the retail store societies—33 of them realized a net gain of \$168,255 and not one showed a loss. *Monthly Labor Review*, July, 1933, p. 116:3.

#### **Why Borden Stopped Giving Free Equipment to Dealers**

Until recently the Borden Company furnished refrigerating equipment to its ice cream dealers, the usual procedure in the ice cream industry. In an effort toward reducing the price to consumers, this plan has been changed and money formerly invested in expensive equipment now goes into other forms of sales promotion. The company solicits only those dealers who are willing to make an investment in their own refrigerating equipment, and aims to educate them to become better merchants. This policy of the vigorous promotion of products on their own merit has already pushed sales ahead 15 per cent. By Lawrence M. Hughes. *Sales Management*, Aug. 1, 1933, p. 106:2.

#### **The Effect on Sales of Multiple Trading**

The author approaches the problem of distribution through chain stores from the viewpoint of a manufacturer whose business was built up principally on selling to privately owned retail shops. The methods by which chain stores buy are analyzed as follows: The chain stores approach a

manufacturer who is doing about 60 per cent of his possible production. They point out that his overheads are being met on this 60 per cent production. They then offer to take the rest of his possible output at a small percentage over his materials and labor cost. These overheads, however, are part and parcel of the production costs and to buy at 10 or 15 per cent on materials and labor means that some other part of the distributed product is bearing the cost of the overhead. Paraphrasing Abraham Lincoln, the author concludes that a manu-

facturer "can sell some of his products under cost for part of the time, or part of his goods under cost all the time, but he cannot sell all his goods under cost the whole of the time." By W. G. Cottrell. *Marketing*, June, 1933, p. 18:2.

### Market Research

A discussion of market research, its value and its methods and the part the salesman can play. By W. N. Cogan. *Marketing*, August, 1933, p. 2:3.

## Sales Promotion: Letters, House Organs, Advertising

### New Consumer Leisure Is Real Advertising Opportunity

Advertising's next big job is to produce consumers during the next six to twelve months. The "leisure factor" is going to play a most important part in this struggle to grow two consumers where one grew before. Thus far, to all appearances, little or no attention has been given this angle of the blue eagle's flight into the daily American scene. This most important by-product of the many NRA codes must be ranked near the top of the list of problems to be solved by advertising and sales promotion.

Those manufacturers who have stuck by their advertising budgets through thick and thin are the ones that are now sitting in the front row amusedly watching the last-minute rush for tickets of admittance to the "New Deal Theatre." They are the ones who are capitalizing on the daily changes that are coming more or less as a matter of fact now that we are riding the wings of the blue eagle. By George F. McClelland. *Printers' Ink*, September 21, 1933, p. 27:2.

### Mail-Order Hat Sale Plan Trebles Knox Over-the-Counter Business

An unusual advertising campaign that trebled the sale of the Vagabond hat was recently carried on by Knox, the Hatter. A coupon illustrating a debonair chap

looking at something through a pair of field glasses and wearing a Vagabond hat was inserted in the daily newspapers. The appeal stressing the "compressibility" and "irrepressibility" of the hat brought a return of 500 coupons in 26 days. *Sales Management*, September 1, 1933, p. 220.

### Executives Are Salesmen's Aides in This Prosperity Drive

To carry business over the top, the International Business Machines Corporation inaugurated a campaign of intensive sales effort requiring that all the executives go out into the field to function as assistants to the company's salesmen. "I regard everyone in the company as an assistant to the salesman," says the president of the company in outlining the plan. He concludes: "One way to do this is to anticipate the world's requirements through study and research, to develop new products and services that are needed in business or by mankind generally, and then, vigorously to sell those products or services." By Thomas J. Watson. *Printers' Ink*, Aug. 17, 1933, p. 16:3.

### How Armstrong Shows Retailers Their Faults

The Armstrong Cork Co. is using the results of a survey to show linoleum retailers how to analyze their operations and to review their floor covering departments

from the retail customer's viewpoint. Young women without specialized linoleum training were sent to investigate representative linoleum departments in department stores and specialty shops. The investigation showed that the factors responsible for lost sales were inadequate stocks, ineffective displays and incompetent salesmanship.

As a result of the survey the company's merchandising bureau is furnishing merchants with a rating list which is expected to be helpful in analyzing their own operations and reviewing their linoleum departments from the standpoint of the retail customer. *Printers' Ink Monthly*, August, 1933, p. 26:2.

#### **An Analysis of 285 National Advertising Budgets, 1932-1933**

The material presented in this report is based on information supplied by 257 national advertisers in the United States covering actual expenditures in 1932 and budget allowances in 1933. The report also compares budget figures for 1932 and 1933 with figures for the years 1929 and 1930.

#### **Salesmen: Selection, Training, Compensation**

##### **The Salesman's Car**

A comprehensive survey of the policies of leading fleet operators, including data on who should own the car, what operating costs should be and how to control costs.

After many years of experiment, the majority of companies operating large fleets have decided upon owning the cars themselves. On the other hand, the majority of companies operating small fleets seem to believe in the salesman-owned car.

It is pointed out, however, that economical operating records are being made by large companies for their salesman-owned cars without any apparent loss of morale or dissatisfaction on the part of salesmen. Furthermore, there is a trend today among several important companies

Part I presents data on 1933 advertising appropriations. It shows that length of time for which budgets were prepared in advance and the basis upon which they were determined together with a comparative analysis of 1933 budgets with 1932 actual expenditures. It also tabulates reports from 72 advertisers who did not fill out questionnaires for the survey since their advertising expenditures were either drastically reduced or discontinued entirely in 1932 and 1933.

Part II is devoted to an analysis of the budgets of 210 consumer advertisers. It presents figures on the relation of advertising expenditures to net sales volume for the two years.

In this analysis, advertising budgets are broken down into three general classifications: 1. administrative expenses of the advertising department; 2. space production costs (art work, engravings, etc.); and 3. expenditures in advertising media, or the actual cost of the space or material to the advertiser. Each of these three types of expenditures is shown in relation to the total advertising appropriation. *Association of National Advertisers, Inc., 1933.* 135 pages.

away from company ownership and toward salesman ownership. Perhaps this is a depression phenomenon.

Thirty-three of the companies contributing to this study either make definite expense allowances or have figures showing actual expenses. The net average of these figures is 4.033 cents per mile. The lowest expense figure was 2.42 cents and the highest 6 cents per mile, which was not actual expense but was an allowance made by a company with a medium size fleet. A study of the expense records of the companies maintaining the most accurate figures shows that neither of these mileage costs is an accurate reflection of actual operating expenses. The 2.42 cents figure is much too low, whereas the 6 cents figure is much too high. The average figure of 4

cents would seem to be a more or less reasonable operating figure under conditions as they have been during the last year. Before setting down any definite figure, however, it is necessary to make a study of what manufacturers base fleet operating costs on and why there should be such a surprising variation.

A discussion of salesmen's automobile expense reports and what they should contain is also included in this study. By C. B. Larrabee. *Printers' Ink Monthly*, September, 1933, p. 29:10.

#### How Detailed Records of Calls Control Salesmen's Work

The Yawman and Erbe Manufacturing Company uses a plan that avoids loading salesmen with record-keeping, yet yields valuable data. This control method is built around four principal forms: 1. a recapitulated, monthly report of each salesman's activities; 2. a "visible" card pocket; 3. the salesman's canvassing card or call card; 4. a ten-day report of the salesman's activities. These, plus a detailed manual in which their uses are described, are the tools of the method.

Every salesman is required to make up a list of desirable outlets in his territory and to determine, with the aid of the manager, the amount of time to be spent on each. Thus for every firm name on his call list, each salesman establishes a definite "call-frequency." The list is transcribed to two media—the "visible" pocket form, the units of which are retained in the office to constitute a permanent record, and the

canvass or call card which fits inside the "visible" pocket. Upon each pocket form—one for each prospect or customer—will appear a detailed record of the salesman's contacts. Wherever possible notations have been reduced to code symbols. The company's sales manager explains the procedure. The forms used are illustrated. By Hugh L. Smith. *Printers' Ink Monthly*, August, 1933, p. 21:2.

#### A Weekly Bulletin That Keeps the Sales Training Plan Alive

In an effort to stimulate sales and to aid sales managers in meeting their immediate problem of finding a way to increase sales, Remington-Rand, Inc., inaugurated a program to re-educate its salesmen on the problems of the individual sales manager, on the available sales tools, and on sales conditions in general.

Weekly bulletins are distributed to branch sales managers for use in shaping and conducting their weekly sales meetings. These bulletins deal with such subjects as market analysis, sales helps, prospect control, the sales record, visual presentations, etc.

As a result of these bulletins record sales have increased, and the process of re-education has not only given the men a truer grasp of the significance of the merchandise they are selling daily, but has also made them more sympathetic to the trials and needs of sales managers. By C. F. Price. *Sales Management*, Aug. 1, 1933, p. 114:3.

### Retailing

#### Performance of Department Stores—1932

This study is the fifth annual survey of operations and performance in department stores undertaken by the Bureau of Business Research of the University of Michigan. The experience of twenty stores located in the states north of the Ohio River between Maine and Iowa is incorporated in

the current report.

During the year 1932 the typical net loss from merchandise operations was 5.3 per cent of net sales. Net sales during the period were 25.6 per cent less than in 1931 and were only 57.2 per cent of the sales in 1929.

The departments whose sales grew in relative importance in 1932 were those han-

dling fashionable items of small unit cost. Departments handling durable merchandise such as furniture, rugs, china, and glassware showed the largest decline in sales. These changes in relative volume of sales indicate that consumer buying motives in 1932 were influenced more than in preceding years by economy and the need for immediate replacement of merchandise.

The conclusion reached in reviewing department store performance for 1931, that

operating expenses must be reduced in line with a smaller sales volume, is again advanced. Expenses are more easily controlled by the management of a store than is gross margin. Gross margin will increase only when the decline in the level of retail prices is stopped, and individual retailers cannot in any way control the general level of retail prices. By Edgar H. Gault. *Michigan Business Studies, Vol. V, No. 3, 1933.* 83 pages.

## Survey of Books for Executives

**Thorstein Veblen:** A Chapter in American Economic Thought. By Richard Victor Teggart. University of California Press, Berkeley, December 30, 1932. 126 pages. \$1.75.

Prior to the Civil War, economic progress was thought of as being advanced by individuals acting in pursuit of their self-interests. The study of economics was accordingly confined to the acquisitive interests of men. After 1865, however, a new conception of progress began to develop—a conception which was founded in the belief that progress pertains to some extra-individual entity, to a collective aggregate of men, and not to the individual as such. Whereas *laissez-faire* had been the ideal of those who held the former view, the leaders in the development of the newer concept believed that progress could only be attained by some form of social intervention which would change and modify the established institutions and modes of life. Thorstein Veblen, the patron saint of Institutionalism whose adherents are so forcefully dominating current economic developments in the United States, played a major rôle in the statement and elaboration of this newer conception of progress.

"Veblen," the author states, "regarded his function in the matter of bringing about 'a change' to be the presentation of an arrangement of 'things as they are' before the jury of human intelligence." To

this end, he developed the thesis that modern civilization is characterized by a fundamental tension and conflict between the motives of workers who wish to produce goods and the motives of business men whose object is to produce profits.

"In Veblen's philosophy," the author points out, "'culture' is synonymous with 'custom'; it is a set of habits, primarily 'habits of thought,' which are ultimately traceable to the economic occupations which men carry on during various stages of economic development. Since technology is made up of the sum of effective means of meeting the material needs of life and is characteristically subject to change, it follows that habits and culture are likewise susceptible of change. And, as habits of thought become modified, the institutions which make up culture will supposedly change also. Here is where we must look for the greatest source of injustice and human unhappiness. Institutions do not change so rapidly as the demands of an ever changing technology. This is the whole point of Veblen's unrelenting attack upon the failure of modern economic society—the presence of newly emerging potentialities in the modern industrial process, coupled with the presence of an archaic system of politico-legal institutions which thwart the realization of these potentialities by the Common Man and the Underlying Population." Veblen holds that the

perplexing problems involving the relationship between human nature and industry will ultimately be solved in the course of economic evolution for the following reasons: "(a) Industrial employments do not lead to 'ownership preconception,' while they do lead to 'scientific,' matter-of-fact ways of regarding things generally—including institutions. (b) With the growing concentration of wealth in the hands of the few, and with property becoming increasingly a matter of absentee ownership, it is believed that such non-industrial habits of thought as non-functional property rights will gradually pass away. (c) The whole array of archaic habits which lead to unserviceable standards of consumption will also be outgrown, with new matter-of-fact habituations set up by machine technology. (d) There is always a possibility that economic evolution may be hastened by some such mutation as a revolt of the engineers."

J. E. H.

**A Handbook of NRA.** Federal Codes, Inc., New York, 1933. 412 pages. \$4.50 (including Supplement Service).

The purpose of this book is to bring together the essentials of the organization and accomplishment of the National Recovery Administration. It is a compilation of the statutes, executive orders, interpretations, approved codes, modifications of the blanket code, and official statements relative to the NRA, with editorial introductions and footnotes.

The book is divided into the following parts: The National Industrial Recovery Act and Administration; Codes of Fair Competition; The President's Reemployment Agreement (miscalled the "Blanket Code"); Substituted Provisions of President's Reemployment Agreement Approved for Certain Industries; Regulation of Petroleum Industry.

A supplementary service, "The NRA Reporter," carrying similar reports on NRA activities through 1933, may be obtained through a coupon included in each volume.

**An Outline of Advertising.** By George Burton Hotchkiss. Macmillan, New York, 1933. 509 pages. \$3.00.

This comprehensive picture of modern advertising ideas and trends is divided into four parts. Part I discusses the historical aspects of advertising, the partnership of advertising with journalism, the social and economic structure of advertising, and the advertiser's policies and objectives.

There follows a section on the business mechanisms of advertising, including chapters on market research and advertising psychology. Professor Hotchkiss discusses, with numerous illustrations, the key move of determining the advertising message, how to attract attention, how to enlist interest, how to establish association and how to get action.

The third section, "The Art of Advertising," points out the skill required in the making of a good ad—the tact, insight and coordination necessary to achieve a really powerful piece of advertising. It considers the principles of copy, art work, layout, typography.

In Part IV the author discusses the allocation of advertising energies to obtain the best results from the least money. He outlines the various periodical media and their uses—daily papers, magazines, mass media such as posters and electric signs, direct mail, and merchandising and dealer helps. A chapter is devoted to radio advertising. The final chapter of the book is a summary of modern trends in advertising.

**A Bibliography of Mental Tests and Rating Scales.** Compiled by Gertrude H. Hildreth. The Psychological Corporation, New York, 1933. 242 pages. \$3.00.

This comprehensive list of tests, approximately complete through 1932, includes foreign as well as American publications, principally English, French and German.

A list of bibliographies consulted is included. A subject, author and test title index will aid the research worker in using the list.

**Flight From the City.** By Ralph Borsodi. Harper & Bros., New York, 1933. 194 pages. \$2.50.

A description is given of how the author and his family have conducted over the past twelve years an experiment in a self-sufficing homestead in the country. The book discusses capital requirements, the equipment for gardening, weaving and for other domestic production needed, how to plan wisely in the selection of products to make in a home, etc.

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**A Primer of "New Deal" Economics.**

By J. George Frederick. Business Bourse, N. Y., 1933. 322 pages. \$2.00.

An exposition of the principles of the New Deal and of the possibilities for business under the new Administration. The author traces the emergence of man from the state of savagery when he was the complete slave of nature, through the various other periods of his history leading up to the Control Period of 1933, ushering in the era of "Disciplined Individualism and Planned Economy."

The practical economics of the NRA, the new government relationship to business, "managed" purchasing power on the basis of 1924-1925 dollar, New Deal financial reform, President Roosevelt's New Deal ideas, are discussed. A chapter is devoted to a critical study of New Deal economics.

Chapters have been contributed by Donald Richberg, Gerard Swope and Bernard M. Baruch.

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**Machine Age in the Hills.** By Malcolm Ross. The Macmillan Company, New York, 1933. 248 pages. \$2.00.

The impact on the Southern mountaineers of all the impersonal forces which science has let loose in the modern world is the subject of this book.

Mr. Ross devotes considerable attention to the mountaineer miners and their families, with regard to both their social and economic situation, finding their case especially pitiful because the coal mining industry which lured them from and swal-

lowed up their little mountain farms, after giving them a few years of boom wages, collapsed and left them without land or employment.

Important among remedial measures offered by the author is the reforestation work, of the sort recently undertaken, in a wide area which includes the countryside of Mr. Ross's book. The use of water power for small industries, the revival of home handicrafts, better educational facilities and training in wholesome ways of life for the people, the return to the mountaineers of surface rights to the soil, scientific research in the coal mining industry and willingness to adapt itself to new developments and new needs are among his other suggestions.

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**Business Management.** Edited by Glenn L. Gardiner. Bureau of Business Practice, Chicago, 1932. 10 volumes. 1143 pages. \$12.50.

This series covers the basic principles of business administration. One volume is devoted to each of the following: Finance and Banking; The Business and Its Organization; Salesmanship; Market Planning; Sales Organization and Operation; Advertising; Business Correspondence; Credits and Collections; Purchasing; Accounting for Business Executives.

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**Management.** By Herbert N. Casson. The Efficiency Magazine, London. 175 pages. 5s.

This little book describes the British idea of management, as it is being developed in successful firms of the British Isles. According to the preface, it deals mainly "with the humanising of a firm—with the creation of a company feeling."

It stresses the value of the spirit of sport in business. It calls attention to the fact that organization has its dangers and defects—that the size of a firm may be a handicap if the personal side of management is neglected. "The time has now come to lift the art of Management to a higher plane—to get rid of the influence of feu-

dalism and of class war. All along the line, in an efficient firm, there must be Friendship. There must be mutual confidence and esteem and willing cooperation."

Chapter headings: Wrong Systems of Management; Labour, Capital and Management; Net Profits Depend on Good Management; How to Build an Efficient Organisation; Good Management Requires Knowledge and Control; Good Management Means Business Building; Making the Most of Employees; The Spirit of Sport as an Essential of Good Management; The Human Touch.

**Economic Reconstruction Legislation of 1933.** National Industrial Conference Board, New York, 1933. 214 pages. \$7.50.

The potentially important body of social-economic legislation enacted by the Seventy-Third Congress bulks larger in volume and force than that of any previous congressional session in the national history. This legislation taken as a whole represents a great venture in federal control and administration of economic activity. In this study the National Industrial Conference Board has supplied an uncritical appraisal of this legislation. The first part of the study presents a digest of the provisions of the laws relating to 34 topics arranged alphabetically for convenience of reference. The second part contains the official text of 17 laws which were selected as being of paramount importance in their direct or indirect bearing on industry.

**Life Insurance as Investment.** By Solomon S. Huebner and David McCahan. D. Appleton-Century Co., New York, 1933. 291 pages. \$2.50.

The purpose of this volume is twofold: first, it describes the services of life insurance in the building up of personal estates through systematic thrift; second, it discusses the aspects of life insurance as investment. The latter subject is approached from the points of view of sol-

gency, investment return, distribution of risk, convenience for borrowing, serviceability for various investment objectives.

**Practical Credit Analysis.** By Eugene S. Benjamin. Author, New York, N. Y., 1933. 125 pages, mimeographed. \$7.00.

In the words of the author, the function of credit analysis is: 1. To determine the actual condition as to the liquidating value of the current assets in a balance sheet; 2. To determine whether the receivables, the merchandise and the liabilities are in healthy relation to sales; 3. To determine whether the borrower is relying too largely on borrowed capital; 4. To provide a medium by which the individual balance sheet can be measured or compared with others in the same line of industry; 5. To discover possible misleading or false balance sheets; 6. To provide a true current ratio on which loans or credit can be predicated. Analysis of statements by means of the following ratios is advocated: current ratio, receivables to sales, merchandise to sales, merchandise to receivables, merchandise to liquid capital, liabilities to sales, liabilities to liquid capital, turnover of liquid capital, turnover of merchandise, debt reflected in merchandise, net profit on gross capital, plant to gross capital, cash to bank loans.

Exception is taken to the practice of placing full reliance on the current ratio, the dependence of the current ratio on operating ratios being pointed out. Each of these is described and the procedure in setting up a balance sheet for analysis purposes is explained. The author recommends comparison of a company's ratios with trade ratios, and shows how to compile and use trade standards.

A number of practical suggestions for use in applying operating ratios, some practical hints for credit men, and several statement exhibits showing how the practical operation of these ratios has worked out in various cases are included in this volume based on a large number of actual cases in credit analysis.